

METROPOLITAN WATER DISTRICT OF OREM

BASIC FINANCIAL STATEMENTS
and Reports in Accordance with *Government Auditing Standards*
and the *State of Utah Legal Compliance Audit Guide*

Years Ended June 30, 2005 and 2004

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Metropolitan Water District of Orem

We have audited the accompanying statements of net assets of Metropolitan Water District of Orem (the District) as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of District management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Water District of Orem as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 2 through 4, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Squire & Company, PC

August 5, 2005

METROPOLITAN WATER DISTRICT OF OREM

Management's Discussion and Analysis

As management of Metropolitan Water District of Orem (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2005 and 2004. We encourage readers to consider the information presented here in conjunction with the financial statements and notes.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$7,606,192 (net assets). Of this amount, \$810,786 (unrestricted net assets) may be used to meet the District's ongoing obligations to provide water to the City of Orem.

The District's total net assets increased during the most recent fiscal year by \$468,416. Most of this increase is attributable to impact fees received from new connections during the year.

Overview of the Financial Statements

The financial statements consist of three separate statements, which are similar to a private-sector business. The Statements of Net Assets present information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees charged).

The Statements of Cash Flows present the activities of the District on a cash-received and cash-paid basis. These statements show how cash was spent and reconcile the change in the cash accounts for the District from the prior year to the current year.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$7,606,192 at the close of the most recent fiscal year.

The tables on the following page summarize information presented in the financial statements:

METROPOLITAN WATER DISTRICT OF OREM
Management's Discussion and Analysis

Metropolitan Water District of Orem's NET ASSETS
June 30, 2005, 2004, and 2003

	2005	2004	2003
Current assets	\$ 1,367,447	\$ 986,229	\$ 746,228
Capital assets, net	6,795,406	6,682,624	6,398,187
Total assets	8,162,853	7,668,853	7,144,415
Current liabilities	410,176	369,956	370,934
Long-term liabilities	146,485	161,123	167,547
Total liabilities	556,661	531,079	538,481
Invested in capital assets, net of related debt	6,648,921	6,521,501	6,230,640
Unrestricted net assets	957,271	616,273	375,294
Total net assets	\$ 7,606,192	\$ 7,137,774	\$ 6,605,934

Metropolitan Water District of Orem's CHANGE IN NET ASSETS
Years Ended June 30, 2005, 2004, and 2003

	2005	2004	2003
Operating revenues	\$ 1,052,687	\$ 1,044,010	\$ 934,009
Operating expenses	1,324,514	1,238,525	1,102,743
Operating loss	(271,827)	(194,515)	(168,734)
Nonoperating revenue (expense)	740,243	726,355	475,669
Change in net assets	468,416	531,840	306,935
Net assets, beginning of year	7,137,776	6,605,934	6,298,999
Net assets, end of year	\$ 7,606,192	\$ 7,137,774	\$ 6,605,934

At June 30, 2005, the largest portion of the District's net assets (87 percent) reflects its investment in capital assets (e.g., water stock). The District uses these capital assets to provide services to Orem City; consequently, these assets are not available for future spending. The remaining balance of unrestricted net assets (\$957,271) may be used to meet the District's ongoing obligations.

METROPOLITAN WATER DISTRICT OF OREM

Management's Discussion and Analysis

In comparing 2005 with 2004, the following items should be noted:

Nonoperating revenues for impact fees totaled \$571,235 during 2005, a decrease of \$5,971 as compared to fee revenue of \$577,206 during 2004. The increase in the District's net assets for 2005 is \$468,416 compared to an increase in 2004 of \$531,840. All other revenues and expenses are very comparable between fiscal years 2005 and 2004.

In comparing 2004 with 2003, the following items should be noted:

Nonoperating revenues for impact fees totaled \$577,206 during 2004, an increase of \$15,034 as compared to fee revenue of \$562,172 during 2003. Also, there was no water drilling expenses in 2004. In 2003, the District spent \$200,000 for water drilling expenses. The increase in the District's net assets for 2004 was \$531,840 compared to an increase in 2003 of \$306,935. All other revenues and expenses are comparable between fiscal years 2004 and 2003.

Capital Asset and Debt Administration

At June 30, 2005 the majority of the District's capital assets are water stock (\$6,795,114). The District spent \$112,490 on the purchase of water stock during 2005. Also, the District is obligated to pay for a portion of the Deer Creek Project, which shows in the financial statements as a long-term liability (see Note 5 in the notes to financial statements).

Economic Factors and Next Year's Budgets and Rates

The District prepared its 2006 budget anticipating nominal overall growth. The District planned to keep impact fees and tax rates about the same while using some of its unrestricted net assets. The District has budgeted to purchase more water shares.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Secretary of the Board of the Metropolitan Water District of Orem at P.O. Box 223, Orem, Utah 84059-0223.

METROPOLITAN WATER DISTRICT OF OREM
STATEMENTS OF NET ASSETS

June 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets:		
Cash and investments	\$ 912,223	\$ 533,928
Accounts receivable from other governments	333,620	335,452
Property tax receivable	121,604	116,849
Total current assets	1,367,447	986,229
Capital Assets:		
Water stock, at cost	6,795,114	6,682,624
Equipment	7,862	7,968
Accumulated depreciation of equipment	(7,570)	(7,968)
Net capital assets	6,795,406	6,682,624
Total assets	8,162,853	7,668,853
LIABILITIES		
Current Liabilities:		
Accounts payable	284,631	247,491
Accrued liabilities	665	361
Deferred property tax revenue	118,456	115,680
Current portion of contract payable	6,424	6,424
Total current liabilities	410,176	369,956
Long-Term Liabilities:		
Contract payable, net of current portion	146,485	161,123
Total liabilities	556,661	531,079
NET ASSETS		
Invested in capital assets, net of related debt	6,648,921	6,521,501
Unrestricted	957,271	616,273
Total net assets	<u>\$ 7,606,192</u>	<u>\$ 7,137,774</u>

The accompanying notes are an integral part of these financial statements.

METROPOLITAN WATER DISTRICT OF OREM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2005 and 2004

	2005	2004
Operating Revenues:		
Water treatment revenue	\$ 1,035,115	\$ 1,024,582
Water quality study revenue	13,179	12,641
Water rental	4,393	6,787
Total operating revenues	1,052,687	1,044,010
Operating Expenses:		
Assessments	237,551	164,043
Salaries	13,614	13,388
Water treatment expense	1,035,115	1,024,582
Water rights study expense	13,179	12,641
Water lease	-	8,846
Engineering fees	17,122	3,472
Other expenses	7,933	11,553
Total operating expenses	1,324,514	1,238,525
Operating Loss	(271,827)	(194,515)
Nonoperating Revenues (Expenses):		
Property taxes and fees	150,554	142,831
Interest income	18,454	6,919
Interest expense	-	(601)
Intergovernmental:		
Impact fees from Orem City	571,235	577,206
Total nonoperating revenues (expenses)	740,243	726,355
Change in Net Assets	468,416	531,840
Net Assets at Beginning of Year	7,137,776	6,605,934
Net Assets at End of Year	<u>\$ 7,606,192</u>	<u>\$ 7,137,774</u>

The accompanying notes are an integral part of these financial statements.

METROPOLITAN WATER DISTRICT OF OREM
STATEMENTS OF CASH FLOWS

Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities:		
Collections from customers	\$ 1,052,491	\$ 1,029,706
Payments to suppliers for goods and services	(1,273,733)	(1,200,217)
Payments to employees for services	<u>(13,309)</u>	<u>(13,354)</u>
Net cash used by operating activities	(234,551)	(183,865)
Cash Flows from Noncapital Financing Activities		
Collection of property taxes	150,554	142,831
Cash Flows from Capital and Capital-Related Financing Activities:		
Purchase of water stock	(112,490)	(284,830)
Purchase of office equipment	(319)	-
Interest paid	-	(817)
Principal payments on notes payable	-	(13,625)
Impact fees received from Orem City	571,285	513,058
Principal payments on contract payable	<u>(14,638)</u>	<u>(6,424)</u>
Net cash provided by capital and capital-related financing activities	443,838	207,362
Cash Flows from Investing Activities:		
Interest received on investments	<u>18,454</u>	<u>6,919</u>
Change in Cash and Cash Equivalents	378,295	173,247
Cash and Cash Equivalents at Beginning of Year	<u>533,928</u>	<u>360,681</u>
Cash and Cash Equivalents at End of Year (Displayed as cash and investments on the statements of net assets)	<u><u>\$ 912,223</u></u>	<u><u>\$ 533,928</u></u>

Supplemental Information:

For cash flow reporting, cash and cash equivalents include amounts in demand deposits, investments in the Utah Public Treasurers' Investment Fund, as well as short-term investments with a maturity date within three months of the date acquired by the District.

A reconciliation of cash flows from operating activities to operating loss follows:

Net cash used by operating activities	\$ (234,551)	\$ (183,865)
Depreciation	(27)	(393)
Changes in operating assets and liabilities:		
Accounts receivable	2,922	11,453
Prepaid expenses	-	(8,846)
Accounts payable	(37,140)	(15,679)
Accrued liabilities	(305)	(36)
Deferred revenue	<u>(2,726)</u>	<u>2,851</u>
Operating loss	<u><u>\$ (271,827)</u></u>	<u><u>\$ (194,515)</u></u>

The accompanying notes are an integral part of these financial statements.

METROPOLITAN WATER DISTRICT OF OREM

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

The accounting policies of Metropolitan Water District of Orem (the District) conform to accounting principles generally accepted in the United States of America applicable to local governmental units. The following is a summary of the more significant policies.

Reporting Entity – Metropolitan Water District of Orem is a local governmental unit organized as a special service district. The District was organized on August 19, 1935, to manage the water needs of the City of Orem. The District is not a component unit of another entity and has no component units.

The District purchases water shares of irrigation and canal companies. The District then provides water to the City of Orem. The District also rents water-use rights on an annual basis to customers.

Basis of Accounting – The District records revenues and expenses using the accrual basis of accounting. The District operates as an enterprise fund, which accounts for activities in a manner similar to private business where the Board has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability. The District applies all applicable private-sector guidance in accounting and reporting for its operations to the extent that those standards do not conflict with or contradict guidance of governmental standards.

Accounts Receivable – Accounts receivable consist of amounts due to the District from Utah County (property taxes) and from the City of Orem. The District has not established an allowance for uncollectible accounts, as it deems all amounts to be collectible.

Water Stock – The District has purchased water stock in various irrigation companies. The water stock is recorded at cost.

Equipment – Purchased equipment is stated at cost. Provision for depreciation of equipment is provided over the estimated useful lives of the assets using primarily the straight-line method. Estimated useful lives are as follows:

Furniture and equipment	7 Years
Computer equipment	5 Years

Deferred Revenue – The annual water rental fees are recognized as revenue as they are earned over the irrigation service period that runs from April through October. Water rental fees received but not earned are recorded as deferred revenue.

Taxes are levied each January 1 and a receivable for levied amount is recorded. Property taxes are recorded as revenue in the year for which the taxes are levied. Accordingly, taxes as levied on January 1 are deferred.

METROPOLITAN WATER DISTRICT OF OREM

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash and Investments

Cash – The District considers cash to be demand deposits. The District's carrying amount of cash is \$6,680 and the bank balance is \$7,623 at June 30, 2005, all of which is covered by federal depository insurance.

Investments – District investments at June 30, 2005 consist of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities Less Than 1 Year</u>	<u>Credit Rating</u>
State of Utah Public Treasurers' Investment Fund	\$ 905,543	\$ 905,543	Unrated

Credit Risk – Credit quality can be a depiction of potential variable cash flows and credit risk. The District does not have a formal investment policy that limits its investment choices in regard to credit quality ratings.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy for custodial credit risk in regard to the custody of the District's investments.

Concentration of Credit Risk – The District places no limit on the amount it may invest in any one issuer. All of the District's investments are invested with the Utah State Treasurer.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Water shares	\$6,682,624	\$ 112,490	\$ -	\$6,795,114
Capital assets being depreciated:				
Equipment	7,968	319	(425)	7,862
Accumulated Depreciation:				
Equipment	(7,968)	(27)	425	(7,570)
Total capital assets being depreciated, net	-	292	-	292
Total capital assets, net	\$6,682,624	\$ 112,782	\$ -	\$6,795,406

METROPOLITAN WATER DISTRICT OF OREM
NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets (continued)

Water stock, recorded at cost, consists of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Provo Reservoir Water Users Company	\$ 1,822,179	\$ 1,804,179
Provo Bench Canal/Irrigation Company	4,248,273	4,186,273
Provo River Water Users Association	539,064	539,064
Dixon Irrigation Company	96,608	96,608
Lake Bottom Irrigation Company	88,990	56,500
	<u>\$ 6,795,114</u>	<u>\$ 6,682,624</u>

Note 4. Contract Payable

A schedule of long-term debt for the year ended June 30, 2005 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Contract payable	<u>\$ 161,123</u>	<u>\$ -</u>	<u>\$ (8,214)</u>	<u>\$ 152,909</u>	<u>\$ 6,424</u>

A contract payable is due to Provo River Water Users Association for the Deer Creek Construction Project. The District's share of the obligation is in proportion to the water shares currently owned by the District in the Provo River Water Users Association. The current rate for payments on the obligation is \$2.85 per share per annum; the obligation is non-interest bearing.

METROPOLITAN WATER DISTRICT OF OREM
NOTES TO FINANCIAL STATEMENTS

Note 4. Contract Payable (continued)

The debt service requirements on the contract payable at June 30, 2005 are as follows:

<u>Years ended June 30,</u>	<u>Annual Payment</u>
2006	\$ 6,424
2007	6,424
2008	6,424
2009	6,424
1010	6,424
2011-2015	32,120
2016-2020	32,120
2021-2025	32,120
2026-2030	24,429
Total	<u>\$ 152,909</u>

Note 5. Related Party Transactions

The District owns water shares and pays annual assessments to the irrigation companies referred to in Note 3. The District is also the sole owner of Dixon Irrigation Company. In lieu of paying an annual assessment to Dixon Irrigation Company, the District pays the expenses of Dixon Irrigation. Amounts paid by the District on behalf of the Dixon Irrigation Company totaled \$6,449 and \$6,026 for the years ended June 30, 2005 and 2004, respectively.

Note 6. Risk Financing

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered, with the exception of liability insurance that the Board has deemed unnecessary, by commercial insurance purchased from independent third parties.

**REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS AND THE STATE OF UTAH LEGAL
COMPLIANCE AUDIT GUIDE**



Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*

Board of Directors
Metropolitan Water District of Orem

We have audited the financial statements of the Metropolitan Water District of Orem as of and for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Metropolitan Water District of Orem in a separate letter dated August 5, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of Metropolitan Water District of Orem in a separate letter dated August 5, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board and is not intended to be and should not be used by anyone other than these specified parties.

Squire & Company, PC

August 5, 2005



**Independent Auditor's Report on Legal Compliance in
Accordance with the State of Utah Legal Compliance Audit Guide**

Board of Directors
Metropolitan Water District of Orem

We have audited the financial statements of the Metropolitan Water District of Orem for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. The District received no major state assistance programs from the State of Utah.

Our audit included test work on the District's compliance with those general compliance requirements identified in the *State of Utah Legal Compliance Audit Guide* including:

Cash Management	Truth in Taxation
Purchasing Requirements	Budgetary Compliance
Other General Compliance Issues	

The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Metropolitan Water District of Orem complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2005.

Squire & Company, PC

August 5, 2005



Letter to Management

Board of Directors
Metropolitan Water District of Orem

In planning and performing our audit of the financial statements of Metropolitan Water District of Orem for the year ended June 30, 2005, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 5, 2005, on the financial statements of Metropolitan Water District of Orem. Reportable conditions and reportable instances of noncompliance, if any, are included in our reports dated August 5, 2005, required by the *Government Auditing Standards* and *State of Utah Legal Compliance Audit Guide*.

We commend the Board for its active participation in the review and approval of District transactions, including trades of water stock, and for adopting the tentative and final budget for the 2004-2005 fiscal year prior to the end of the 2003-2004 fiscal year. We encourage the Board to continue its involvement. The following are opportunities we feel should be considered for strengthening District controls and improving accounting procedures:

Bank Reconciliations – Bank accounts were reconciled using a different date than the bank statement date.

We recommend that the bank statement date be used as the reconciliation date when reconciling the bank accounts.

Three-Day Deposit Rule – The State requires that public funds are deposited daily when receipts are significant and in no case should deposits be made more than three days after funds are received. Cash and checks are not always deposited within three days of receipt.

We recommend that cash be receipted on the same day received and deposited within three days of receipt as required by state law.

Views of responsible officials:

We appreciate the comments and recommendations. We will review these matters and make changes as needed.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We express our appreciation to District personnel for their assistance in the audit.

Squire & Company, PC

August 5, 2005